

Budgeting (revised 7/29/02)

Introduction

A **budget** is a plan for receiving and spending money during a set period of time, typically a year. State law requires that a municipality adopt a budget, appropriate the money identified in the budget, spend money only as authorized in the budget (**appropriations**), and hold a public hearing on the budget. A budget essentially performs three functions:

- It is a tool for planning, prioritizing, and directing the operation of municipal government.
- It gives the municipal government legal authority to spend money.
- It is a way of providing an accounting to the public.

A municipal budget shows, for a set period of time, the revenues that a municipality expects to receive from the various sources identified in the budget and what the money will be spent on. Municipalities provide a wide range of services to and on behalf of their citizens. By setting out and authorizing in advance the amount of money that can be spent on each service the governing body directs what types and levels of service the municipality will provide and ensures that it is able to provide those services that are a high priority for the community.

The governing body will also continue to use the budget as a financial planning tool while carrying it out. Through comparing the budget with actual revenues (money received) and expenditures (money spent) shown in the monthly financial reports, the governing body can use the budget to evaluate the operation of municipal departments and identify any changes needed.

As an example, if the costs of some city operations are higher than provided for in the budget, the council may ask the accounting staff to explain why. If the city's operating costs are higher than expected, or if the city does not receive some money that was planned in the budget, the council should change the budget to reflect this.

The budget process informs residents in advance what the local government's plan is for receiving and spending money. This helps citizens to evaluate their local government. Also, it provides an opportunity for residents to let local officials know what they think about local taxes and other sources of revenue as well as different services the public wants provided.

This section presents an overview of the budget process along with a typical budget calendar showing when different steps should occur and key steps in the budget process:

- Estimating revenues.
- Estimating expenditures.
- Comparing revenues with expenditures.
- Adopting the appropriation ordinance (budget).

At the end of this section is a discussion of three special topics: starting a sales tax, starting a property tax, and grants. This discussion is directed at municipalities that may be interested in developing other revenue sources but do not currently collect taxes or apply for grants.

BUDGET CALENDAR		
	<u>Activity</u>	
90 days before the end of the fiscal year.	Estimate revenues to be received this year and next year, and estimate this year's expenditures.	At the direction of the mayor, the treasurer would ordinarily prepare the estimates.)
	Review estimates and establish priorities.	Governing body
80 days	Review estimates, and prepare estimates of proposed expenditures for next year.	Mayor**
60 days	Prepare appropriation ordinance and policy statement, and submit them to the city council.	Mayor**
30-45 days	Hold at least one public hearing	Governing body
	Public offers comments on proposed Public appropriation ordinance.	
	Adopt appropriation ordinance.	Governing body

Overview of the Budget Process

Title 29 of the Alaska Statutes directs the governing body to establish the manner for preparing the budget and directs the municipality's chief administrator (the mayor or manager) to prepare and submit an annual budget. The budget calendar shown here outlines the typical steps and the responsibilities of key officials involved in the preparation and adoption of a municipal budget.

Following is an example for a city that has a strong mayor rather than a city manager form of government.

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Step 1. Ninety days before the new fiscal year begins, the mayor directs the treasurer (or the city clerk, if the offices of clerk and treasurer have been combined) to estimate the revenue the city will receive during the next fiscal year. These estimates include any funds that may be left over from the current year that can be used in the next year.

This is done by dividing the year-to-date actual amounts by the number of months that have already passed to get an average per month amount, then multiplying by 12. These estimates are then added to the actual year-to-date revenues and expenditures to come up with a proposed figure for the current fiscal year.

When the estimates of next year's revenues from all sources are prepared, the city council uses this information to begin setting priorities for city operations for the next year. It is important that the council and administrative staff work closely on this to ensure a successful outcome.

Step 2. Eighty days before the new **fiscal year** begins, the treasurer begins preparing estimates of expenses for the next fiscal year. The treasurer is guided by the spending priorities set by the council.

Next, the estimates of revenues and expenses can be combined into a preliminary budget. Adjustments may have to be made if the expected revenues are not enough to pay for salaries, equipment, supplies, and the other expenses of providing municipal services.

Step 3. Once the revenue and expense estimates are prepared, the city council conducts a work session to review them. In addition to reviewing the accuracy of the estimates, the council works through its list of spending priorities to develop a final proposed budget.

Step 4. Sixty days before the fiscal year begins, the chief executive officer, with the assistance of the treasurer, begins preparing a final proposed budget. State law, AS 29.20.500 (3), requires that the chief executive officer (mayor or manager) prepare and submit an annual budget for consideration by the governing body. The chief executive officer submits the final proposed budget in the form of an ordinance. This special budget ordinance is called an **appropriation ordinance**. All appropriations must be approved through the budgeting process before any money is spent.

Step 5. When the council receives the proposed budget, the council studies it to make sure it reflects the council's priorities and provides the services that residents want.

Thirty to thirty-five days before the beginning of the new fiscal year, the council holds one or more public hearings on the proposed budget. Following the public hearing(s), the city council adopts the ordinance with or without amendment.

Estimating Revenue

The revenue side of the budget represents one-half of the budget process, and it establishes how municipal operations will be funded. Unless there is good reason to believe that there will be an increase in revenues, a good practice in estimating revenue is to assume no more funds will be available next year than this year from any source. Also, keep in mind that money received from a source this year may not be available next year. Each possible revenue source should be identified and analyzed separately when estimating revenues to ensure the most accurate and up to date information is used.

Typical sources of revenues for a municipal government include:

- Taxes.
- Licenses and permits.
- Other government revenues.
- Charges for contract services, for example, providing maintenance for a state airport.
- Enterprise revenues, for example, fuel sales or bingo.
- Miscellaneous revenues such as fines, building rentals, sale of municipal property, etc.

Budget worksheets that provide guidelines for estimating revenues are available from the Department of Community and Economic Development (DCED).

The amount of revenue a municipality generates limits the size of its operating budget. A municipality should not rely too heavily on outside sources of revenue because these can't be controlled as well as local revenues.

The state and federal governments have certain programs and grants that provide revenue for municipal operations; however, the money received from the state and federal governments this year may not be available next year. It is, therefore, important that a local government generate as much local revenue as possible. The following is a brief discussion of some common sources of revenue available to municipalities.

1. City Sales and Use Tax (AS 29.45.650 - .710)

A sales tax is a tax paid by the buyer on the sale of goods, rents, or services in a municipality. The tax may apply to all sales, rents, or services, or the municipality may enact an ordinance that exempts certain activities from the tax. A sales tax, because it is generated by local activity, provides a relatively dependable source of revenue.

A municipality levying a sales tax may also, by ordinance, levy a use tax. A use tax is a specific tax paid by a buyer on the storage, use, or consumption of personal property not otherwise taxed. The use tax must equal the sales tax rate.

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2. Property Tax (AS 29.45.010 - .600)

A property tax is a tax on real and/or personal property within a municipality. A property tax, like a sales tax, generates revenue from within the community to provide funding for city services.

Real property is generally considered to be property such as land and buildings, or other permanent structures, located on the land. **Personal property** generally means material property other than real property. This may include a business' merchandise stock, machinery and equipment, furniture and fixtures, motor vehicles, boats and vessels, and aircraft. A municipality may tax either, or both, real and personal property.

A first class city may tax real and personal property at a rate not to exceed 30 mills (3%) of the assessed value of the property. A second class city is limited to a rate of 20 mills (2%).

3. Fees, Licenses, and Permits

A municipality uses money from fees, licenses, and permits to regulate and support certain activities. For example, a dog license charge might be used to support a dog pound. The amount of money raised by the license helps provide a service that would be paid for using other revenue.

Fees, licenses, and permits help raise money to support the activities, services, or projects charged. They are a source of continuing local revenue. The municipality's code of ordinances should state who pays, when, where, in what amount for each fee, license, and permit and any penalty for not complying.

A city inside a borough may not institute fees, licenses, and permits for those activities regulated by the borough, unless the borough by ordinance provides otherwise. Cities in the unorganized borough may regulate activities not prohibited by law (AS 29.35.250 - .260).

4. State Revenue Sharing (AS 29.60.010 - .310)

The State Revenue Sharing program provides financial assistance to municipalities. The program is administered by the Department of Community and Economic Development, Division of Community and Business Development.

To qualify to receive funds from the State Revenue Sharing program, a municipality must:

- Hold regular elections.
- Hold regular meetings of the governing body (records must be maintained).
- Adopt a budget.
- Codify local ordinances.

In addition, a municipality must complete and sign a State Revenue Sharing Application and prepare a certified financial statement covering the fiscal year from two years before.

Each year the state legislature determines the amount of funds available for the program, so the total amount of money a municipality receives changes from year to year. Payments are made on July 31.

5. Safe Communities (AS 29.60.350 - .375)

The state legislature has also established a Safe Communities program. The legislature may appropriate an amount to the program each year equal to or greater than thirty percent of the revenue derived from a tax placed on corporations doing business within the state. No safe communities payments are available if the legislature does not appropriate money for this program.

6. State-Shared Taxes

Shared taxes are specific taxes levied and collected by the state that are, in part, refunded to municipalities. State taxes shared with municipalities include:

- Coin-Operated Amusement and Gaming Taxes, AS 43.35.010
- Aviation Fuel Taxes, AS 43.40.010
- Liquor License Taxes, AS 04.11.610
- Raw Fish Taxes, AS 43.75.130
- Telephone and Electric Cooperative Taxes, AS 10.25.570

Coin-Operated Amusement and Gaming Taxes. The state collects fees from owners of amusement devices that are offered to the public for a fee. Fifty percent of the taxes collected under this program are refunded to the municipality in which the tax is collected.

Aviation Fuel Taxes. If a municipality owns and/or operates a municipal airport, sixty percent of the aviation fuel taxes collected are refunded to the municipality in which the tax is collected.

Liquor License Taxes. Every establishment that sells or serves liquor must pay a yearly fee for a liquor license. One hundred percent of the amount collected under this program is refunded to the municipality in which it was collected if the municipality has a police force and actively enforces state, federal, and local liquor laws. Refunds are automatically mailed to municipalities semi-annually every January and July.

Raw Fish Taxes. The state returns to cities located in the unorganized borough 50 percent of the taxes collected within their boundaries. It returns to cities located within a borough 25 percent of the taxes collected within their boundaries and 25 percent is returned to the borough. Payments are made every August.

Telephone and Electric Cooperative Taxes. One hundred percent of taxes collected from telephone and electric cooperatives is refunded to the municipality in which the cooperative does business. A municipality's entitlement is based upon the amount of gross revenue the cooperative received from operations within the municipality's boundaries. The tax is refunded annually in July.

Estimating Expenditures

Estimating budget expenditures is done in much the same way as estimating revenue. Expenditures for each department, each program administered by the municipality, and each service provided should be categorized and estimated separately. Expenditure worksheets provided by DCED include a fairly complete list of possible categories:

- Administration and Finance.
- Council.
- Planning and Zoning.
- Police.
- Fire.
- Ambulance.
- Other Public Safety.
- Streets and Roads.
- Airport.
- Harbor and Dock.
- Electric Utility.
- Water and Sewer.
- Washeteria.
- Garbage and Landfill.
- Fuel Sales.
- Cable TV.
- Bingo and Pull Tabs.
- Mass Transit.
- Phone Utility.
- Other Enterprise.
- Health Facility.
- Other Health and Welfare Services.
- Parks and Recreation.
- Library.
- Museum and Cultural.
- Other Public Services.

As shown in the sample, each category (council, administration and finance) has specific line item expenses (salaries, travel & per diem) to be estimated. Only the categories that apply for the municipality using the worksheet need to be filled in.

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SAMPLE

CITY _____

BUDGET WORKSHEETS

DATE PREPARED _____

ANNUAL BUDGET FOR EXPENDITURES

FISCAL YEAR _____

COUNCIL

ESTIMATED
FY 02

BUDGET
FY 03

Salaries (as established by ordinance)

Authorized Travel and Per Diem

Printing

Contractual Services

Other (list by item)

TOTAL COUNCIL

ADMINISTRATION AND FINANCE

Salaries

Authorized Travel and Per Diem

Equipment

Supplies

Rent

Utilities

Telephone

Insurance

Repairs and Building Maintenance

Publications

Advertising and Printing

Membership Dues and Fees

Elections

Contractual Services (audit, assessor,
legal fees, etc.)

Bonding Insurance for Officials

Other (list by item)

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One way of doing expenditure estimates is to base the new budget year estimates on the current year costs. To get an estimate of total expenditures, first estimate the cost of each line item in an expenditure category for the current year, then total all line items for that category. After doing this for each expenditure category, add all the categories together to arrive at a total estimate of expenditures.

Comparing Revenues With Expenditures

After the revenues and expenditures have been estimated for the next fiscal year, calculate the balances of all checking accounts, savings accounts, and any other invested money. Then add to this the total revenues expected for the next fiscal year. This new amount is the total revenue estimate expected for the next fiscal year.

When revenues are not enough to cover the expenses, some services must, because of their importance or a provision of law or regulation, be given a high priority. For example, if the city operates a sanitary landfill, the city must budget enough money to keep the landfill in compliance with state regulations. The following are examples of other things to consider when setting budget priorities, especially if there is not enough revenue to meet all expected needs:

1. Can any of the proposed items wait one year without seriously harming the municipality and its basic services?
2. Can any services be provided for less money?
3. Do any of the proposed budget items help save money in the long run?
4. Should certain fees be raised to support the service rather than pay for it with other revenues? An example might be water and sewer fees.
5. Will other services suffer if a service does not receive a certain amount of funding?
6. How does the public feel about the importance of a proposed budget item?

Once the service needs of the municipality have been established they must be ranked in order of importance (prioritized). Both the governing body and residents should be involved in setting budget priorities. Once the needs have been ranked, the governing body can start the job of distributing revenues to meet them.

The total estimated expenditures for the next fiscal year should be subtracted from the total amount of revenues available. If there is no money left over from this calculation, expenditures should be reduced. A municipality should always budget to have at least some money left over at the end of the fiscal year.

**Sample Comparison of Municipal Revenues and Expenditures
For Fiscal Year 2003**

Beginning Cash Balance (Estimated) (All savings and checking accounts as of July 1, 2002)	\$8,250
Plus Estimated Revenue (FY 03)	+60,296
Total Cash Available (FY 03)	68,546
Less Total Estimated Expenditures (FY 03)	-37,834
Ending Cash Balance (As of June 30, 2003)	\$30,712

Adopting the Appropriation (Budget) Ordinance

1. Preparing the Appropriation Ordinance

After the governing body has reviewed the revenue and expenditure estimates and determined, with community involvement, the budget for the coming year, an appropriation ordinance is prepared.

The budget, when prepared as an ordinance, is called an appropriation ordinance. The appropriation ordinance legally establishes a municipality's budget. The municipality may spend money only for services, projects, etc., listed in the appropriation ordinance. The appropriation ordinance is a **non-code ordinance** and does not become a part of the municipal code of ordinances.

SAMPLE APPROPRIATION ORDINANCE

ORDINANCE NO. 02-12

AN ORDINANCE FOR THE CITY OF SUNSHINE ALASKA
PROVIDING FOR THE ESTABLISHMENT AND ADOPTION OF THE
BUDGET FOR THE FISCAL YEAR 2003

BE IT ENACTED BY THE COUNCIL OF THE CITY OF SUNSHINE:

Section 1. Classification.

This is a non-code ordinance.

Section 2. General provisions.

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The attached budget document is the authorized budget of revenues and expenditures and the change in cash balances for the period July 1, 2002, through June 30, 2003, and is made a matter of public record.

Section 3. Authorization and Appropriation.

Subject to council approval by resolution, the Mayor* may: (1) establish line item expenditures within an authorized appropriation; and/or (2) transfer from one authorized appropriation to another any amount which would not annually exceed 10 percent of the budgeted line item or \$10,000, whichever is less.

Section 4. Effective Date.

This ordinance becomes effective upon its adoption by the city council.

First Reading May 31, 2002
Public Hearing June 1, 2002

ADOPTED by a duly constituted quorum of the City Council of Sunshine, Alaska, this 1st day of June, 2002.

Mayor

ATTEST:

City Clerk

* or the manager, if the manager plan has been adopted

Form 21-308A

RETURN TO: DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
P.O. Box 110809, JUNEAU, ALASKA 99811

2. Introducing and Approving the Appropriation Ordinance

The appropriation ordinance is presented to the council like any other ordinance. It must be adopted in the same manner as all other ordinances. In addition to the appropriation ordinance, the mayor, or manager if the municipality has adopted a manager form of government, may wish to include a budget policy statement. This statement is a brief explanation of the governing body's expenditure priorities for the budget period.

3. Amending the Appropriation Ordinance

During the budget year, a municipality may find that the appropriation ordinance needs changing. For instance, if the municipality receives unexpected additional revenue it wishes to place in the operating budget, this is done with a **supplemental appropriation**. Also a supplemental appropriation is used to reduce expenditure categories during the budget year and to shift money from one authorized category to another. A supplemental appropriation where funds are shifted from one account to another is called a **transfer appropriation**.

SAMPLE FORM OF ORDINANCE TO AMEND BUDGET

AN ORDINANCE TO PROVIDE FOR ADOPTION OF A BUDGET AMENDMENT CONTAINING ESTIMATES OF EXPENDITURE CHANGES FOR _____, FOR THE FISCAL (CALENDAR) YEAR BEGINNING _____, 20__, AND ENDING _____, 20__.

BE IT ENACTED BY THE CITY COUNCIL OF THE CITY OF SUNSHINE ALASKA.

Section 1. That for the fiscal year, beginning _____, 20__ and ending _____, 20__ the estimated revenues and expenditures have varied.

Section 2. That for the current fiscal year the General Fund is hereby amended as follows:

	From	To
General Government	\$ _____	\$ _____
Public Safety	\$ _____	\$ _____
Public Works	\$ _____	\$ _____
Parks and Recreation	\$ _____	\$ _____
Contingency	\$ _____	\$ _____

Section 3. This ordinance becomes effective upon adoption by the city council.

First Reading _____, 200__

Public Hearing _____, 200__

Adopted this _____ day of _____ 20__.

Chief Executive Officer

ATTEST: _____

Needing an additional employee is an example of when a supplemental appropriation may be necessary. Since the position was not provided for in the original budget, no money is available to hire the additional worker. An example might unexpected water and sewer repairs that required another staff person to repair and the municipality received more raw fish tax funds than expected so there is money available to fund another position. The extra funds can be used to hire the needed employee, once a supplemental appropriation is adopted. The supplemental appropriation is adopted in ordinance form in the same manner that the original appropriation ordinance was adopted.

An example of a transfer appropriation is: three months into the new fiscal year, the city needs to spend additional money for road repairs. The city council has determined that the money is available by reducing the authorized expenditure for administration and finance. A transfer of funds through an amendment to the appropriation ordinance is needed.

Usually provisions in the original appropriation ordinance allow a municipality to make amendments to the ordinance by resolution, if the amounts transferred do not exceed a set limit. A typical limit is 10 percent of the category amount or \$10,000, whichever is less. Any transfer of funds involving an amount less than 10 percent of the budget category or \$10,000 may be made by resolution. Any amount above the limit requires adoption of an amendment to the appropriations ordinance.